PROVINCE OF SASKATCHEWAN

09-10

ANNUAL REPORT

MINISTRY OF AGRICULTURE

Agricultural Credit Corporation of Saskatchewan

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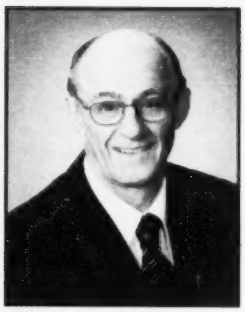
This annual report is also available in electronic format from the Ministry's website at **www.agriculture.gov.sk.ca**.

Letters of Transmittal



His Honour the Honourable Dr. Gordon L. Barnhart, S.O.M., Ph.D
Lieutenant Governor of Saskatchewan

May it Please Your Honour:

I respectfully submit the Annual Report of the Agricultural Credit Corporation of Saskatchewan for the fiscal year ending March 31, 2010.

Respectfully submitted,

Bob Bjornerud
Minister of Agriculture

Year in Review

The Agricultural Credit Corporation of Saskatchewan's (ACS) loan portfolio decreased from 3,157 loans totaling $49.4 million to 2,934 loans totaling $45 million.

The ACS sold 8,965 acres of land assets during this fiscal year. ACS continues to hold 15,000 acres of land assets valued at approximately $1.5 million which were acquired as the result of loan settlements or foreclosure. These land assets are currently under lease with most of the leases expiring in 2010. These properties will be advertised for public sale as leases expire.

The 2009 Short-term Cattle Loan Program provided low interest rate loans in response to the economic hardship facing cattle producers. There are 2,344 loans outstanding for $32.1 million. Repayment on these loans was to commence in 2009. As a result of low market prices and high feed costs, the Minister of Agriculture provided producers an optional principal extension in 2009 and 2010.

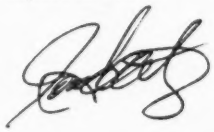
The ACS continues to work diligently and sensitively with customers. There has been steady progress on the reduction of the loan portfolio.

Management's Responsibility for the Annual Report

The ACS management is responsible for the preparation, integrity and fair presentation of the financial statements and other information in the Annual Report. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles. Where estimates are used, they are based on management's best judgement. Financial and operating information provided elsewhere in the Annual Report is consistent with that contained in the financial statements.

The ACS maintains systems of internal accounting and administrative controls designed to provide reasonable assurance that the financial information is accurate and reliable and that corporate assets are adequately accounted for and safeguarded. The Board of Directors oversees the systems of internal accounting and administrative controls. Management and the Corporation's external auditors meet periodically throughout the year to review their respective responsibilities and to discuss audit plans, the results of reviews of internal accounting controls, policies and procedures and the financial statements and notes thereto.

The Board of Directors has approved the financial statements and the other information in this Annual Report. In addition, the financial statements have been audited by Meyers Norris Penny LLP whose report follows.



Tom Schwartz, Executive Manager

Auditors' Report

To the Members of the Legislative Assembly Province of Saskatchewan

We have audited the consolidated statement of financial position of Agricultural Credit Corporation of Saskatchewan as at March 31, 2010 and the consolidated statements of operations and accumulated surplus, change in net financial assets and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2010 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles for government organizations.

Meyers Norris Penny LLP

Regina, Saskatchewan

Chartered Accountants

April 15, 2010

Agricultural Credit Corporation of Saskatchewan
Consolidated Statement of Financial Position
As at March 31, 2010

(in thousands of dollars)

	2010	*2009*
Financial Assets		
Cash and short-term investments (Note 3)	**12,370**	5,186
Accounts receivable	**2**	206
Loans receivable *(Notes 4 and 5)*	**36,848**	41,484
Inventory for resale *(Note 6)*	**-**	244
Assets held for resale *(Note 7)*	**1,291**	388
Investments *(Note 8)*	**-**	210
	50,511	47,718
Liabilities		
Accounts payable and accrued liabilities	**-**	405
Long-term debt *(Note 10)*	**6,149**	7,749
	6,149	8,154
Net Financial Assets	**44,362**	39,564
Non Financial Assets		
Tangible capital assets *(Note 11)*	**440**	4,677
Prepaids	**-**	43
	440	4,720
Accumulated surplus	**44,802**	44,284

Commitments *(Note 9)*

Approved on behalf of the board

Director **Director**

The accompanying notes are an integral part of these financial statements

Agricultural Credit Corporation of Saskatchewan
Consolidated Statement of Operations and Accumulated Surplus
For the year ended March 31, 2010

(in thousands of dollars)

	(Budget) *(Note 16)*	***2010***	*2009*
Revenue			
Operating revenue *(Note 12)*	4,859	**3,408**	5,309
Loan loss recovery		**164**	-
Counseling and Assistance for Farmers recoveries	25	**36**	67
Gain on sale of assets held for resale	200	**1,316**	1,280
Assets held for resale net revenue	100	**159**	188
Grants from Ministry of Agriculture	40	**165**	642
	5,224	**5,248**	7,486
Expenses			
Write down of carrying value of assets	-	-	136
Investment loss provision	-	-	172
Cost of goods sold and overhead expenses	2,638	**1,865**	2,818
Amortization	143	**226**	296
Selling and administration expenses	905	**579**	770
Interest expense	-	**11**	62
	3,686	**2,681**	4,254
Other expenses (income)			
Write down of assets (Note 15)	-	**2,075**	-
Forgiveness of debt	-	**(26)**	-
	-	**2,049**	-
Surplus for the year	1,538	**518**	3,232
Accumulated surplus, beginning of year	44,284	**44,284**	41,052
Accumulated surplus, end of year	45,822	**44,802**	44,284

The accompanying notes are an integral part of these financial statements

Agricultural Credit Corporation of Saskatchewan
Consolidated Statement of Change in Net Financial Assets
For the year ended March 31, 2010

(in thousands of dollars)

	2010	*2009*
Surplus for the year	**518**	3,232
Acquisition of tangible capital assets	**(33)**	(58)
Write down of carrying value of tangible capital assets	**-**	136
Amortization of tangible capital assets	**226**	296
Write-down of assets	**2,075**	-
Net change in assets held for resale	**1,969**	1,912
Acquisition of prepaids	**-**	(43)
Use of prepaids	**43**	49
Increase in net financial assets	**4,798**	5,524
Net financial assets, beginning of year	**39,564**	34,040
Net financial assets, end of year	**44,362**	39,564

The accompanying notes are an integral part of these financial statements

Agricultural Credit Corporation of Saskatchewan
Consolidated Statement of Cash Flows
For the year ended March 31, 2010

(in thousands of dollars)

	2010	2009
Cash provided by (used for) the following activities		
Operating transactions		
Surplus for the year	**518**	3,232
Items not affecting cash		
Loan loss recovery	**(164)**	-
Investment loss provision	**-**	172
Forgiveness of debt	**(26)**	-
Amortization	**226**	296
Write-down of assets	**2,075**	-
Write down of carrying value of assets	**-**	136
Other *(Note 13)*	**401**	(44)
Loan payments received	**4,522**	5,808
Loan disbursements	**-**	(14,813)
	7,552	(5,213)
Capital transactions		
Purchase of tangible capital assets	**(33)**	(58)
Cash from subsidiary	**(61)**	-
Disposal of assets held for resale	**1,346**	1,912
	1,252	1,854
Financing activities		
Repayment of long-term debt	**(1,620)**	-
	(1,620)	-
Increase (decrease) in cash and short term investments	**7,184**	(3,359)
Cash and short term investments, beginning of year	**5,186**	8,545
Cash and short term investments, end of year	**12,370**	5,186

The accompanying notes are an integral part of these financial statements

1. Status of Corporation

The Agricultural Credit Corporation of Saskatchewan (ACS/Corporation) acts as an agent of the Government of Saskatchewan and has provided financial assistance to encourage and promote the development and expansion of the agricultural industry in the Province. On March 28, 1996, the Government of Saskatchewan announced that the ACS portfolio would be wound down. All ACS employees were transferred to the Ministry of Agriculture, however ACS still is responsible for collection of the loan funds, monitoring loan collectibility and retirement of their debt.

On December 21, 2007, the Government of Saskatchewan announced a new loan program called the Short-Term Cattle Loan Program. This loan program's funds were disbursed through ACS, and the program monitored and administered by ACS.

2. Significant Accounting Policies

a) Basis of Presentation

Pursuant to standards established by the Public Sector Accounting Board (PSAB), ACS is classified as an other government organization. The consolidated statements have been prepared in accordance with Canadian generally accepted accounting principles applicable to governments. These financial statements include the accounts of ACS and its wholly owned subsidiary, an other government organization. All significant intercompany transactions and balances have been eliminated. ACS and its subsidiary do not have coterminous year-ends and these consolidated financial statements reflect ACS's operations for the year ended March 31, 2010 and its subsidiary's operations for the year ended December 31, 2009. ACS has received an offer to purchase its wholly owned subsidiary prior to year-end; therefore ACS has recorded its investment in subsidiary as assets held for sale at its net recoverable amount. Current year subsidiary results of operations and cash flows are recorded in the statement of operations and cash flow statement.

b) Under Section 29 of The Agricultural Credit Corporation of Saskatchewan Act, the Minister of Agriculture may make grants to the Corporation out of monies appropriated by the Legislature. Grants may be provided for the payment of administration costs, for the payment of interest on funds borrowed, to defray losses on loans not repaid and for other purposes that may be determined by the Minister. Grant funds received for the fiscal year are for specific purposes. Any excess funds received for the fiscal year and not expended on each specific purpose are reported on the consolidated statement of financial position as unexpended grants repayable.

Operating grants from Ministry of Agriculture are recognized as revenue when receivable. Capital grants from Ministry of Agriculture related to depreciable tangible capital assets are recognized as revenue when receivable.

c) The Corporation records, as assets held for resale, the fair market value, at the date of acquisition, of assets acquired through settlement, quit claim or foreclosure. Fair market value is determined by the market value of the assets acquired. Assets held for sale are subsequently valued at the lower of its carrying amount or fair value less cost to sell. The income or loss from operations associated with these assets is recorded in the statement of operations. Assets held for resale are recognized as financial assets when PSAB's criteria are met for recognition. The provision for losses represents management's estimate of possible losses on assets held for resale.

d) Inventory is valued at the lower of cost and net realizable value. Cost is determined by the direct costing method.

2. Significant Accounting Policies (continued)

e) Tangible capital assets are stated at cost. Amortization is provided using the following methods and annual rates:

Buildings	Straight-line	40 years
Automotive	Declining balance	30%
Computer equipment	Declining balance	45%
Equipment	Declining balance	10%
Toll processing equipment	Declining balance	10%
Toll processing equipment Software	Straight-line	1 year

f) Loans are recorded at the lower of cost and net recoverable value. Amounts included in the cost of loan receivable include principal, accrued interest and capitalized legal costs. Loans with concessionary terms are recognized as an expenditure when the loan is made; loans expected to be recovered through future appropriations are recorded as an expenditure; and loans advanced with forgivable conditions are recorded as an expenditure. An allowance for impaired loans is maintained that reduces the carrying value of loans to their estimated realizable amount. A loan is classified as impaired when there is no longer reasonable assurance that the principal and interest will be collected in full. The Corporation records general allowances when evidence of impairment within groups of loans exists but is not sufficient to allow identification of individual impaired loans. ACS estimates impairment using a formula based on its loss experience for similar groups of loans in similar economic circumstances. Management performs a net present value calculation on a sample of loans within the loan portfolio and extrapolates the results of the analysis to the entire loan portfolio population. Estimated realizable values are determined by discounting the expected future cash flows at the effective interest rate inherent in the loans. When the amounts and timing of future cash flows cannot be reliably established, estimated realizable values are determined by reference to underlying security value. As management identifies individual impaired loans, it assigns a specific allowance to the loan and adjusts the general allowance accordingly.

g) Interest revenue earned on the outstanding loan balance is recognized as earned, based on interest rates specific to each individual loan program. Interest revenue is not accrued on loans where the collectability of principal or interest is not reasonably assured. Dividend and interest income on the investment portfolio is recognized as earned. Sales revenue is recognized as the product is delivered to the customer.

Short term investments are term deposits that are readily convertible to cash and with maturities of less than three months. The carrying value approximates their market value.

i) Measurement Uncertainty
The preparation of financial statements in conformity with Canadian generally accepted accounting principles for government organizations requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses during the year. The Corporation reviews its overall allowance for loan loss and this process is subject to significant management judgement. Also, in determining estimates of net realizable value for its investments, the Corporation relies on assumptions regarding financial performance as well as general business economic conditions that prevail and are expected to prevail. Assumptions underlying the investment valuations are limited by the availability of reliable data and the uncertainty of future events. In addition, there is management judgement involved in estimating the fair value of assets held for resale. There is also judgement with respect to management's estimate of losses on loans as a result of the guarantee programs. Due to uncertainties inherent in these estimation processes, it is possible that changes in the future conditions may cause recorded amounts to change by a material amount in the near term. As adjustments become necessary, they are reported in earnings in the periods in which they become known.

j) Investments are accounted for using the cost method. A provision for investment loss that is other than a temporary decline is recorded representing management's estimate of likely losses based upon individual review of the investments.

3. Cash and Short Term Investments

Interest rates for short term investments at March 31, 2010 was 0.31% (2009- 1.3%). Cash and short-term investments are comprised of the following:

	2010	*2009*
	(in thousands of dollars)	
Cash	**178**	392
Short term investments	**12,192**	4,794
	12,370	5,186

4. Loan Programs

a) Capital Loan Program

Loans are repayable over terms not exceeding 25 years and bear interest at rates between 5% and 8%. Security on the loans varies and may include mortgages on real property, security agreements and guarantees.

b) Investment Loan Program

Investment loans bear interest at rates between 6.5% and 10.5% and are repayable over terms not exceeding 25 years. Security on the loans varies and may include mortgages on real property, security agreements and guarantees.

c) Production Loan Program

Production loans were disbursed in 1986 to provide farmers, bee colony owners, potato producers and greenhouse operators with loans bearing interest at 6%, repayable in equal principal instalments over a term of three years. Amounts in arrears are at prime plus 2%. Subsequently, some loans were rewritten with longer terms to assist borrowers to repay their loans. These amended loans bear interest at an average rate of 7%.

The loans are secured by promissory notes, and where applicable, by guarantees and general security agreements.

d) Livestock Cash Advance Program

Effective August 1, 1993, customers with livestock cash advances began repaying the loans, bearing interest at the bank prime rate plus 2% over a maximum five-year period. Subsequently, some loans were rewritten with longer terms to assist borrowers to repay their loans. These amended loans bear interest at an average rate of 9%.

The loans are secured by promissory notes, and where applicable, by guarantees.

e) Counselling and Assistance For Farmers Program

Effective August 1, 1992, ACS assumed responsibility for loans and guarantees which were outstanding under the Counselling and Assistance for Farmers Program. New guarantees were not issued under this program by the Corporation. The existing guarantees had been renewed until March 31, 1995 at which time the program was terminated.

The majority of the loans under this program are in default, had judgements obtained on them and bear interest at 5%. The loans are secured by way of an assignment of security from the original lender.

f) BSE Livestock Loan Guarantee Program

During the 2010 fiscal year, the Corporation paid out $nil (2009-$65,553) to honour guarantees on loans granted by financial institutions under the BSE Livestock Loan Guarantee Program. ACS acquires the loan once the guarantee is paid. The loans bear interest at prime plus 2%.

The loans are secured by promissory notes and, where applicable, by guarantees and general security agreements.

g) Livestock Drought Loan Program

During the 2010 fiscal year, the Corporation paid out $nil (2009-$1,829) to honour guarantees on loans granted by financial institutions under the Livestock Drought Loan Program (LDLP). ACS acquires the loan once the guarantee is paid. The loans bear interest at prime plus 2%.

The loans are secured by promissory notes and, where applicable, by guarantees and general security agreements.

h) AGMT (Agreement for Sale)

An AGMT loan is set up when a settlement has been reached with a client on other loan(s) and repayment of the agreed settlement amount requires more than six months to finalize. Loans bear interest at rates between 0% and 12% and are repayable between 6 months and 4 years.

i) Short-term Cattle Loan Program

In January 2008, the Corporation implemented the Short-term Cattle Loan Program (STCLP) which provided livestock producers with low interest loans based on their livestock inventory at August 1, 2007. The interest rate is the government 90 day borrowing rate which was 0.28% at March 31, 2010 (2009-1.35%). The interest rate on the loans changes quarterly when the 90 day borrowing rate is set. The Ministry of Agriculture provided an optional principal payment deferral for 2009 and 2010. Loans are to be re-paid over the next 4 years. The loans are secured by general security agreements.

j) Agri-Food Equity Fund Division (AFEF) debentures

On February 28, 2003, the AFEF debentures were transferred to ACS at their net book value. AFEF debentures include interest-bearing instruments at rates ranging from 6% to 15% with maturities extending between 2009 and 2011. The profitability of the investee determines the repayment of principal and interest on the participating debenture.

5. Loans Receivable

	2010			2009		
	Gross	**Allowance**	**Net**	Gross	Allowance	Net
	(in thousands of dollars)			(in thousands of dollars)		
Capital Loans	**10,380**	**1,540**	**8,840**	13,032	2,171	10,861
Investment Loans	**276**	**124**	**152**	269	170	99
Short-term Cattle Loans	**32,084**	**5,100**	**26,984**	33,660	5,049	28,611
BSE loans	**1,030**	**541**	**489**	1,593	857	736
LDLP loans	**141**	**74**	**67**	192	103	89
Production Loans	**76**	**7**	**69**	175	10	165
Livestock Cash Advances	**21**	**3**	**18**	188	41	147
AGMT	**269**	**40**	**229**	362	236	126
Counselling and Assistance For Farmers Loans	**219**	**219**	**-**	249	249	-
AFEF debentures	**-**	**-**	**-**	1,271	621	650
	44,496	**7,648**	**36,848**	50,991	9,507	41,484

6. Inventory for Resale

	2010	2009
		(in thousands of dollars)
Finished goods		98
Raw materials and packaging supplies	-	146
	-	244

7. Assets Held For Resale

	2010	2009
		(in thousands of dollars)
Recoverable amount of investment	**253**	-
Cost – Land	**1,038**	388
	1,291	388

Assets acquired are a result of settlement, quit claim or foreclosure and the Corporation actively pursues the sale of these assets in a timely manner.

8. Investments

	2010	*2009*
	(in thousands of dollars)	
Equity investments	**603**	935
Less: provision for investment loss	**(603)**	(725)
	-	210

9. Commitments

Guaranteed loans under The Agricultural Credit Corporation of Saskatchewan Act

a) Guaranteed Vendor Mortgage

Guarantees were provided by the Corporation to vendors under the Guaranteed Vendor Mortgage program for the sale of farmland and existing improvements. The guarantees are for 100% of the principal amount outstanding. The contingent liability of the Corporation for guaranteed vendor mortgages outstanding at March 31, 2010 is $9,000 (2009 - $13,500).

b) BSE Livestock Loan Guarantee Program (BSE)

In September 2003, the BSE Livestock Loan Guarantee Program was enacted under The Agricultural Credit Corporation of Saskatchewan Act in response to the May 2003 closure of the US border. The program was designed to provide support to livestock producers affected by export market restrictions and to assist with cash flow. The loans were made through financial institutions and were 100% guaranteed by ACS. The contingent liability of the Corporation under this program at March 31, 2010 is $nil (2009 - $26,053). The guarantee expired March 31, 2009.

10. Borrowing

Sections 17 and 19 of The Agricultural Credit Corporation of Saskatchewan Act allows the Corporation to borrow, with the approval of the Lieutenant Governor in Council, monies from various sources as it deems necessary for its purposes. Section 22 restricts total borrowing by the Corporation to $2,000,000,000. The long-term debt is repayable to the Ministry of Agriculture. The loan is non-interest bearing with no repayment terms.

11. Tangible capital assets

	Cost	***Accumulated Amortization***	***2010***	*2009*
			(in thousands of dollars)	
Assets held for resale- land	**440**	**-**	**440**	2,436
Land	**-**	**-**	**-**	16
Building	**-**	**-**	**-**	659
Computer equipment	**-**	**-**	**-**	45
Equipment	**-**	**-**	**-**	530
Toll processing software	**-**	**-**	**-**	5
Toll processing equipment	**-**	**-**	**-**	986
	440	**-**	**440**	4,677

12. Revenue

	2010	*2009*
	(in thousands of dollars)	
Interest revenue	**1,063**	2,021
Sales revenue	**2,311**	3,222
Investments	**34**	40
Other interest	**-**	26
	3,408	5,309

13. Other

	2010	*2009*
	(in thousands of dollars)	
Decrease in accrued interest on loans receivable	**488**	37
(Decrease) increase in accounts receivable	**(25)**	92
Decrease in inventory	**64**	32
Increase in assets held for resale	**-**	(22)
Decrease in accounts payable and accrued liabilities	**(126)**	(183)
	401	(44)

14. Related Party Transactions

Included in these financial statements are transactions with various Saskatchewan Crown-controlled ministries, agencies and corporations with which the Corporation is related. Account balances from these transactions are included in the consolidated statement of financial position and are settled on normal trade terms. Other transactions and amounts due to and from related parties and the terms of settlement are described in the financial statements and notes thereto.

	2010	*2009*
Accounts payable and accrued liabilities	**15,515**	15,388
Deferred grants received for assets	**-**	23,749
Grants from Ministry of Agriculture	**164,828**	641,544
Cost of goods sold and overhead expenses	**201,998**	252,731
Interest expenses	**11,316**	20,718

Certain administration expenses for the Corporation are paid for by Ministry of Agriculture. These costs amounted to approximately $1,325,585 (2009 - $1,532,057).

15. Write-down of assets

In March 2010, the Corporation received a letter of intent from a third party to purchase its wholly-owned subsidiary's shares. The value of the Corporation's net investment has been written down to its net recoverable amount.

16. Budget

The budget figures are presented for comparison purposes.